

Seattle Public Utilities

Report to Libraries, Utilities, and Center
Committee

A Committee of the Seattle City Council

REPORT ON 2011 AUDITS

May 1, 2012

MOSS-ADAMS LLP

Presented by: Laurie Tish and Amy Sutherland



Scope of our Audits

- Financial Statement audit
 - Management Discussion and Analysis
 - Financial Statements
 - Notes to Financial Statements
- Our responsibility is to express an opinion on the financial statements
 - Presented fairly in all material respects
 - In conformity with generally accepted accounting principles
- Risk based approach focusing on significant systems and accounts
- Audit opinion is used in official statements for bond issuances



Areas of Focus – Systems Tests

(amounts shown are for Water Fund)

- Work Order System – Construction In Process (CIP) (\$54 million annual charges for \$1.2 billion in capital assets)
- Payroll (\$55 million annual charges)
- Cash Disbursements/Expenses (\$107 million annual charges)
- Cash receipts/Revenues for direct service and wholesale customers (\$181 million)
- Information Technology – general computer controls which include access, security, change management



Expanded Audit Procedures

- We modified our planned audit scope within the Water Fund after notification of alleged employee fraud
 - Expanded interviews and testing in the Project Delivery Branch
 - Review of CCSS adjustments for 2011
 - Analysis of gross margin for non-standard (sundry) revenue systems
 - Obtained an understanding of management's response to the alleged fraud



Reports Issued

Report on financial statements

- Unqualified Opinion for each of the separate statements of Water, Drainage & Wastewater and Solid Waste Funds

Internal control matters

- No material weaknesses noted as a result of our audits
- Significant deficiency noted in relation to the access and monitoring controls of the CCSS billing system
- Suggestions for business process improvements will be provided to management



Areas of Audit Significance

- Cash and Investments: Earnings and classification
- Utility Plant and Related Accounts: Work order cycle, CIP, capitalized interest, depreciation, overhead charges
- Accounts and Other Receivables
- Bonds and Related Accounts: Issuances and repayments, interest expense, covenant compliance, arbitrage liability, debt defeasance
- Deferred Charges
- Accrued liabilities including environmental remediation liability, pollution remediation obligation and landfill closure/post-closure
- Litigation and Contingencies
- Operations: Retail and wholesale sales, operating expenses, capital and operating contributions and grants
- Net Asset Classification
- Management Discussion & Analysis and Note Disclosures



Required Communications

- Auditor and Management Responsibility under GAAS
- Financial Statement Disclosures
- Significant Accounting Policies (Note 1)
 - No new policies
 - No changes to existing policies, except for the classification of tonnage fees within Solid Waste
 - No significant changes in accounting or auditing pronouncements in 2011
- Accounting Estimates – typical for utility industry
 - Unbilled revenue
 - Allowance for doubtful accounts
 - Certain bond related accounts
 - Recovery periods for the cost of plant, capitalized interest
 - Environmental liabilities, litigation, contingencies
 - Landfill closure and postclosure care (solid waste)
 - Other post employment benefits, compensated absences



Required Communications – continued –

- No posted or proposed adjustments
- Representation letter was obtained from management
- Disagreements with Management – None
- Consultation with Other Accountants – None of which we are aware
- Difficulties Encountered in Performing the Audit – None, other than the expanded audit scope noted within the Water Fund
- Moss Adams is independent with respect to SPU and the City of Seattle



Other

- Seattle Public Utilities staff across all departments were courteous, responsive and timely with their assistance to our audit team
- All requested schedules and the draft financial statements were accurate (properly supported by source documents and schedules) and provided to us on a timely basis
- ‘Tone at the Top’ and attitude from management was one of helpfulness, candor, and openness in response to audit requests and discussion points



QUESTIONS?

